CITY OF DANBURY

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MEETING NOTICE

Who: City Council Members

When: **7:00 P.M. - Monday, November 21, 2016**

Where: 3rd Floor Council Chambers, City Hall, 155 Deer Hill Avenue

Purpose: Public Hearing for the following:
1. Non Union Pension Amendments
(Code of Ordinance, Chapter 14)

(Copies of the above are available in the Legislative Assistance Office)

cc: Council Members
Corporation Counsel
Town Clerk
Caucus Board
Information Board

NOTICE

Members of the City Council will meet as a committee of the whole immediately following the above public hearing.

CITY OF DANBURY
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TO: Councilman Irving Fox, Ad Hoc Committee Chair; Ad Hoc Committee Members; David St. Hilaire, Director of Finance; Department Representatives; Attorney Richard Cohen; Shipman & Goodwin; Attorney Saranne Murray, Shipman & Goodwin

FROM: Dianne Rosemark, Assistant Corporation Counsel

CC: Mayor Mark D. Boughton; Joseph M. Cavo, City Council President; Virginia Alosco-Werner, Director of Human Resources; Andrea Gray, Payroll Supervisor

DATE: October 24, 2016

RE: Non-Union Pension Amendments to Chapter 14 of the City's Code of Ordinances

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For this evening's Ad Hoc Committee Meeting concerning the proposed amendments to Chapter 14 of the City's Code of Ordinances (the General Employees Pension Plan, ("GEPP")), I have summarized below the major points of the amendments for your consideration. Please note that these amendments pertain to Non-Union employees only.

Attached to this memorandum are the relevant ordinances reflecting the amendments to the GEPP. The major features of the pension plan amendments are as follows:

1. New Defined Contribution Plan for Non-Union Employees: (Section 14-18)

   Non-Union employees are currently members of the City's Defined Benefit (DB) Plan only. The City will now offer employees the option to enroll in a Section 401(a) Defined Contribution (DC) Plan.[1]

2. "Plan to Plan Transfer:" (Section 14-18)

   - Employees will have the option to transfer their actuarially determined pension benefit in the DB Plan to the City's DC Plan.
   - If the employee is over age 62, they can transfer their actuarially determined pension benefit from the DB Plan to the City's DC Plan, or other IRS qualified plan not administered by the City.

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[1] Contributions by the City and the employee will be referenced in the DC Plan Document.

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3. New Optional Form of Retirement Benefit: (Section 14-6)

- Employees will now have the ability to elect a lump sum retirement benefit at age 55 in addition to other optional retirement benefit options (5, 10 or 15 year benefit) or contingent annuitant option, from the DB Plan. (Section 14-6(a) Option C).
- Employees who are separating from the City without retiring will also have the ability to take a lump sum cash out of the DB **or** the DC Plan at any age. (Section 14-6(b) and (c)).

4. Retirement Options for New Employees Hired after July 1, 2017: (Section 14-18(a))

- New employees must elect to enroll in the DB Plan or the DC Plan within 60 days of hire. If they do not elect either, they will be enrolled in the DB Plan.
- If a new employee enrolls in the DB Plan, s/he may later enroll in the DC Plan under a "plan to plan transfer." (See Item 2 above).
- Restrictions on costs of living increases (COLA's) for new employees' retirement benefits in the DB Plan. (Section 14-5(m)(2)).

5. Eliminate Rule of 85 for New Employees Hired after July 1, 2017: (Section 14-5(e) and (h))

- The Rule of 85 (years of service plus age = 85) will not apply to employees hired after July 1, 2017. Employees hired after this date may only retire at age 65 (normal retirement) or at the earliest, age 55.

6. Eliminate the Two (2) Year Requirement of Electing an Optional Benefit:

- Employees will no longer be required to elect an optional benefit two (2) years before their retirement date or be required to provide evidence to the GEPP Pension Board of their good health. (This requirement was previously in Section 14-6).

Additions since the Committee's Ad Hoc Meeting of 9/26/16:

1. Provisions for new employees hired after 7/1/17 (previously 1/1/17).

2. New employees hired after 7/1/17 will not have a cost of living (COLA) increase applied to their retirement benefits from the DB Plan.

3. Return of contributions for employees who contribute to the DB Plan and who separate from service without retiring. (Section 14-7(e). Employees who separate with less than 5 years of service receive their contributions back from the DB Plan. Employees who separate with more than 5 years but less than 10 years receive their contributions back from the DB Plan plus 3% interest (or as may be amended from time to time).

memo

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Date October 31, 2016

To David St. Hilaire, Director of Finance

From Stéve Lemanski, Consulting Actuary; Bill Woollacott, Vice President and Consulting Actuary

Cc Laszlo Pinter, Deputy Corporation Counsel; Dianne Rosemark, Assistant Corporation Counsel

Subject Non-Union Pension Amendments to Chapter 14 of the City's Code of Ordinances – Comments on Expected Actuarial Impact of Amendments

As you requested, we have reviewed the six major points of the proposed non-union pension amendments, as summarized by Dianne Rosemark in her October 20, 2016 memo. These proposals only pertain to current and future non-union employees.

Our comments regarding the expected actuarial impact of each the six major points are summarized below.

1. New Defined Contribution Plan for Non-Union Members: To the extent that new employees elect to enroll in the City's DC Plan, then no actuarial liabilities will emerge for such employees in the City's DB Plan, and there will be no future actuarial exposure for the City with respect to such employees.

2. "Plan to Plan Transfer": To the extent that employees elect to transfer the actuarial value of their pension benefits from the City's DB Plan to a DC Plan (either the City's plan, or other IRS qualified plan), the accrued liability in the City's DB Plan will be eliminated for those employees. As such, there will be de-risking of the DB Plan liabilities, and the City will have no further exposure to actuarial uncertainty (i.e., market fluctuations, etc.) with respect to the liabilities transferred to a DC Plan.

3. New Optional Form of Retirement Benefit: Because the actuarial basis for determining the lump sum option is consistent with the actuarial assumptions used in the funding valuation that develops the City's Actuarially Determined Employer Contribution (ADEC), we expect that adding a lump sum option will be cost-neutral with respect to the ADEC. In addition, and similar to the expected impact of the "plan to plan transfer" in Item #2 above, lump sum elections will de-risk the DB Plan liabilities, resulting in no future actuarial exposure for the City with respect to these employees. Plan experience with respect to lump sum elections should be monitored over time, to determine if any modification to the pension fund's target asset allocation is warranted.

4. <u>Retirement Options for New Employees Hired after July 1, 2017</u>: As noted in Item #1 above, to the extent that new employees elect to enroll in the City's DC Plan, then no actuarial liabilities will emerge for such employees in the City's DB Plan, and there will be no future actuarial exposure for the City with respect to such employees. For any new employee who enrolls in the City's DB Plan and subsequently elects to enroll in the City's DC Plan under the "plan to plan transfer", the expected actuarial impact will be as summarized in Item #2 above. For any new employee hired after July 1, 2017 who elects to enroll in the City's DB plan, no increases for cost-of-living adjustments (COLAs) will be applied to the pension benefit. As such, the actuarial liability associated with such an employee will be lower than it is under the current plan provision regarding COLAs. We estimate that, on average, the actuarial liability will be reduced by approximately 15% to 20% for such employees, relative to the current plan provision. Please note that terminated vested employees hired prior to July 1, 2017 will still receive COLAs.

5. <u>Eliminate Rule of 85 for New Employees Hired after July 1, 2017</u>: Since new employees who elect to enroll in the City's DB Plan will not be eligible to receive an unreduced benefit until age 65 (instead of a potentially earlier age), the average per-capita actuarial liability and associated City annual ADEC for the DB Plan will be lower, versus the existing provision. The relative reduction in actuarial liability and the annual ADEC will emerge over time, for those new employees who elect to enroll in the City's DB Plan, and as plan experience develops. Item #5 will not impact new hires that elect to enroll in the City's DC Plan.

6. <u>Eliminate the Two (2) Year Requirement of Electing an Optional Benefit</u>: Many years ago, this provision was a more common one for public sector pension plans, when there was more of a concern about "anti-selection" . As life expectancies have improved significantly over time, such concerns regarding anti-selection generally do not exist. Therefore, such a provision is rarely used today. For the City's DB Plan, we do not anticipate that there will be any material anti-selection for future retirees with respect to their election of optional forms of benefit. As such, we expect that the impact on the DB Plan accrued liability and the associated City annual ADEC will be immaterial. Eliminating the two (2) year requirement will also ease the administrative burden on the City, with respect to processing retirement benefits.

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